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Report Series 1991

91-1 Towards Reform of Provincial-Municipal Finance

Pre-Budget Consultation Brief

Association of Municipalities of Ontario
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MISSION STATEMENT

AMO unites Ontario's municipalities.

We take pride in promoting, supporting and enhancing strong and effective municipal government.

We provide strategic leadership by:

- developing and effectively promoting responsive quality policy;
- informing and educating governments, the media and the public;
- marketing innovative and beneficial services.

Our elected representatives, municipal officials and association staff form a team which values and respects:

- diversity and local autonomy;
- fairness and equity;
- consultation;
- consensus;
- co-operation.

TABLE OF CONTENTS

		Page
	Precis	ii
1.0.	Introduction	1
2.0.	Recommendations for the 1991 Provincial Budget	2
	2.1. Basic principles guiding allocation of fiscal resources in the 1991 budget	2
	2.2. Unconditional grants transfer payments for 1991	3
	2.3. New policy initiatives	4
	2.4. Funding for social services	5
	2.5. Re-introduction of Bill 229 - Municipal Investing and Borrowing	7
3.0.	Implementing the reform of the provincial-municipal fiscal partnership	8
4.0.	Long-term changes in the provincial-municipal partnership	8
5.0.	Conclusion	10

PRECIS

In the enclosed pre-budget consultation brief the Association of Municipalities of Ontario makes the following recommendations:

1. That the province of Ontario support a minimum of an across-the-board increase in the unconditional grants program equal to at least the rate of inflation.

2. That the province of Ontario move towards 100 per cent funding of income support services and children's services.

3. That the 1991 provincial budget not introduce any new cost-shared programs which further exacerbate the present state of "entanglement" between the province of Ontario and Ontario's municipalities.

4. That the province of Ontario prepare a municipal impact statement for all new program initiatives and that the province provide adequate funding for these new programs to cover actual municipal expenditures associated with these new programs.

5. That the 1991 provincial budget allocate adequate levels of funding in the conditional grants program in order to allow municipalities to cover the actual costs of program initiatives funded by conditional grants.

6. That the province of Ontario develop a philosophical framework for the role of municipalities within the wider societal context of public and private sector institutions in consultation with the municipal sector.

7. That the provincial government lend full support to studies addressing new sources of revenues for municipalities.

8. That the provincial government commence studies for the establishment of a revenue-sharing act.

9. That Bill 229 - Municipal Investing and Borrowing - be re-introduced to the Legislature as soon as possible.

Format of the presentation

This pre-budget consultation brief will present recommendations for the 1991 provincial budget (section 2.0.), highlight desirable characteristics for the reform process of provincial-municipal finance (section 3.0) and suggest a few long-term goals and objectives for a new financial partnership between the province of Ontario and Ontario's municipalities.

1.0. INTRODUCTION

The Association of Municipalities of Ontario welcomes this opportunity to forward recommendations for the 1991 provincial budget and for the process of restructuring the provincial-municipal fiscal relationship.

Need for reform of the provincial-municipal financial partnership

The Association recognizes that this decade constitutes a critical time period for an examination and re-organization of the fundamental roles and responsibilities assumed by the province of Ontario and Ontario's municipalities within the framework of fiscal federalism. In fact, the Association identified disentanglement and the realignment of provincial-municipal roles as its top priority for the next year and hopes that the provincial government recognizes the necessity of a substantial reform in this relationship as an imperative step towards a more rational and constructive interrelationship between the two levels of government.

Policy documents addressing the restructuring of provincial-municipal finance

At present, a number of major policy documents have tackled the complex task of analyzing the current web of municipal-provincial financial programs and have attempted to provide a blueprint for a re-organization of the financial partnership. AMO's New Dimensions Report (1990), AMO's response to the Report of the Provincial-Municipal Social Services Review (PMSSR) (1990) or the soon to be released Report of the Advisory Committee to the Minister of Municipal Affairs on the Provincial-Municipal Financial Relationship (1991) can be considered significant milestones in the fiscal reform process.

Dialogue - a first step in the reform process

The Association of Municipalities of Ontario has already commenced an extensive dialogue with the provincial treasurer, the Honourable Floyd Laughren, and the minister of municipal affairs, the Honourable Dave Cooke, regarding the establishment of discussion forums (e.g. Fair Tax

Commission, Next Steps Committee) designed to coordinate the multiplicity of policy options outlined in the aforementioned reports into a set of alternative scenarios for a new provincial-municipal financial partnership.

Transition: New policy priorities and unaddressed grievances

Municipal politicians recognize that the provincial government is still in a time of transition designed to address and/or modify policies and programs commenced by the previous government while simultaneously setting new priorities in congruence with the government's philosophical framework. The Speech from the Throne on November 20, 1990 highlights new provincial policy initiatives which could potentially have a significant impact on the municipal sector (e.g., amendments to the pay equity act, introduction of employment equity legislation, or, a safe drinking water act.) At the same time, Ontario's municipalities experience uncertainty about the future course of action of some fiscal policy initiatives introduced by the previous government such as the establishment of a Property Assessment Corporation, the establishment of a Sewer and Water Services Corporation, or, Bill 229 - Municipal Borrowing and Investing Powers. While some of these initiatives have met with the support of the municipal sector, other legislative proposals have not been dealt with to the full satisfaction of the municipal sector and need to be re-opened for discussion.

2.0. RECOMMENDATIONS FOR THE 1991 PROVINCIAL BUDGET

2.1. Basic principles guiding the allocation of fiscal resources in the 1991 budget

Disentanglement, political accountability and adequacy of funding

AMO urges the provincial treasurer to develop the 1991 budget based upon the fundamental principles of disentanglement, political accountability and adequacy of funding.

Disentanglement as defined in New Dimensions (1990) refers to the distribution of roles and responsibilities which recognizes that "the level of government primarily responsible for managing a program, should be held accountable for that program and contribute to its funding (p. 29)." Thus, AMO strongly discourages the provincial

government of Ontario from introducing any new provincial-municipal cost-shared programs which would exacerbate the status quo leaving municipalities to fund provincially mandated and provincially regulated programs from property tax revenues. In the same vein, the province of Ontario should not create new policy initiatives and programs which constitute an intrusion into the municipal tax field (e.g., commercial concentration tax in the Greater Toronto Area, lot levies for school capital).

Political accountability refers to the ability of the electorate to hold elected representatives responsible for their decisions and actions on municipal councils. However, politicians can only account for services and programs over which they can exert local authority and control. Disentanglement of funding responsibilities between the province of Ontario and the municipal sector is desirable from the perspective of the voting public and municipal elected officials, as disentanglement clearly enhances political accountability. Consequently, services and programs should only be funded from the property tax base if these services and programs are indeed under municipal control.

The provincial budget should reflect the principle of adequacy of funding. Funding levels of conditional grant programs should be adequate to allow municipalities to fulfill the stated objective of a given program. This position has been continually espoused by the Association:

> *"Conditional grants are used to fund essential services, largely mandated by the province. AMO believes in the need for these services, but they must be paid for...AMO recommends that conditional grants be set at a level which recognizes the actual condition and needs of municipalities (A New Decade, a New Partnership, 1990, p. 4)."*

2.2. Unconditional Grant Transfer Payments for 1991

In the current transfer payment system unconditional grants are instituted to ensure that "Ontario's municipalities have sufficient financial resources to provide services under their jurisdiction and to reduce the impact of property tax increases on the local taxpayers (Provincial Auditor's Report, 1988)." The government of Ontario froze unconditional grant transfer payments for the 1989 municipal budget year at the 1988 funding level with the province allocating $ 871 million in unconditional grants to municipal governments in Ontario.

In the 1990 municipal fiscal year $ 914 million were paid to municipalities in the form of unconditional grants. While some municipalities enjoyed a modest increase in unconditional grants, more than half of Ontario's municipalities were still flatlined in the 1990 municipal budget year.

The Association of Municipalities of Ontario strongly criticized the previous government for flatlining the unconditional grants, as it failed take into account annual inflationary increases in the cost of service delivery, growth in households and devolution of provincial responsibilities to the municipal sector. Ontario municipalities were put into a position where they were forced to divert funds from municipal priorities and/or increase municipal taxes in order to compensate for increased responsibilities and the shortfall in provincial revenues.

Minimum of an across-the-board increase for all municipalities equal to at least the rate of inflation

In mid-October 1990 AMO president John Harrison requested the premier of Ontario, the Honourable Bob Rae, and the minister of municipal affairs, the Honourable Dave Cooke, to endorse as a minimum an across-the-board increase in unconditional grant transfer payments for all municipalities equal to at least the rate of inflation.

This recommended policy direction by AMO was predicated on the belief that unconditional grants as we now know them will not exist by the 1992 budget year. AMO proposes that the calendar year 1991 be used as a transition year designed to affect the reform of the provincial-municipal fiscal relationship. In the longer term AMO recognizes that across-the-board increases do not account for variations in the need for unconditional funding.

2.3. New policy initiatives

Municipal impact statement

The Association of Municipalities of Ontario encourages the government, as part of the cabinet submission, to require the completion of a municipal impact statement for all new programs which have implications for the contribution of municipal fiscal resources. The Association of Municipalities of Ontario highlighted the need for an assessment of the collective impact of new provincial policy initiatives in its 1990 pre-budget consultation brief:

"AMO recommends that the provincial government amend its cabinet and management board submission forms to include a special section entitled 'ramifications for municipalities'. This section would require ministries to insert a cost projection for municipalities of any new program or policy or revised program to respond to these new costs, and a requirement that AMO be consulted on the impact of any such changes (A New Decade, A New Partnership, 1990, p. 7)."

No further devolution of funding responsibilities without adequate allocation of financial resources

Municipalities are still struggling with the effects of provincial devolution of funding responsibilities to the municipal sector (e.g., court security) under the previous government. Municipalities are unable to absorb the costs of additional cost-shared programs. AMO requests that all new policy initiatives be accompanied by adequate provincial funding (e.g., mandatory employment equity for the private and public sector.)

2.4. Funding of social services

Property tax base inadequate and inappropriate for funding social assistance costs

In the course of numerous consultations with the provincial government the Association has pointed out that property tax revenues constitute an inadequate and inappropriate tax base for ever-increasing social assistance costs. Across the province, the average percentage increase in caseloads from September 1989 to September 1990 was approximately 50 per cent. For many municipalities this has resulted in actual GWA payments well exceeding original GWA budget estimates for 1990, amounting to significant deficits.

The following is a summary of the increases experienced in some municipalities.

Municipality	Caseloads Sept 1989	Caseloads Sept 1990	% increase	Original GWA Budget Estimate for 1990 ('000s)	Actual GWA Payments to Date ('000s)	% Spent to date
Kent County	437	832	90.4%	$ 4,200.	$ 4,700.	111.9%
Nipissing District	141	325	130.5%	$ 1,225.	$ 1,273.	103.9%
City of Barrie	246	563	128.9%	$ 2,661.	$ 2,665.	100.2%
Essex County	647	1302	101.2%	$ 4,696.	$ 4,718.	100.7%
Region of Peel	2901	5279	81.9%	$22,915.	$23,553.	102.3%
City of Kingston	987	1406	42.5%	$ 5,970.	$ 6,560.	109.9%

Taken from
Ontario Municipal Social Services Association (1990). Caseloads Statistics. Mississauga, Ontario: OMSSA.

In the time of a major recession coupled with a relatively high rate of unemployment in the province of Ontario, projections indicate that social assistance caseloads may well soar higher thereby exerting further pressure on municipal governments to finance social assistance costs through higher municipal taxes and/or cutbacks in other discretionary social services programs required by these constituents.

AMO requests that the provincial government implement the recommendations regarding Income Support Services and Children's Services as proposed in AMO's response to the Provincial Municipal Social Services Review (PMSSR), (1990).

Provincial government to move towards 100% funding of income support services and children's services

In AMO's response to the Report of the PMSSR, the Association recommended "that the provincial government move towards assuming 100 per cent of the costs of income support services as soon as possible". As a second priority in the reform of the social services system, AMO recommended "that in conjunction with the next provincial budget, the provincial government assume 100 per cent of the funding responsibility for the children's services envelope (Roles and responsibilities, AMO's response to the PMSSR, 1990, p. 90)."

The provincial government has highlighted its commitment to reforms of the social assistance system in the Speech from the Throne (1990):

> *"We pledge to continue the reform of Ontario's social assistance system...*
>
> *Our health and social services must be the best we can afford. We cannot, however, assume that spending more and more money will mean better services. Instead, we will look at the results of our spending to ensure the most effective use of public funds... (pp. 9-10)".*

At an interministerial policy forum on December 11, 1990 AMO presented its response to Report of the PMSSR and Strategies for Change. The provincial treasurer agreed in principle that there should be movement towards greater provincial responsibility for social services and that social assistance is not appropriately funded from the property tax base. The Honourable Floyd Laughren also said that the provincial government's recent announcements on social assistance rate increases should send a strong signal

to municipalities that the province is committed to assuming greater financial responsibility for welfare costs. That announcement involved 100 per cent of the additional increases in basic support and shelter subsidy (2 per cent and 5 per cent respectively) above the original 5 per cent increases announced by the previous government. AMO viewed this as a modest acknowledgement of the necessity of the provincial government accepting full responsibility for the costs of its decisions on welfare rates and the recommendations to move towards 100 per cent provincial responsibility for all social assistance costs.

The Association of Municipalities of Ontario hopes that the 1991 provincial budget will reflect the government's commitment to a fundamental reform of the social assistance system and will lift the burden of the social welfare costs from the municipal sector.

2.5. Re-introduction of Bill 229 - Municipal Investing and Borrowing

Re-introduction of Bill 229 - Municipal Investing and Borrowing

A joint committee of provincial representatives from the ministries of municipal affairs, treasury and economics, senior members of the Investment Dealers of Ontario and four municipal representatives reviewed currently existing legislation dealing with municipal investing and borrowing powers over a three year period of time. After extensive research Bill 229 was introduced for first reading into the provincial legislature on June 26, 1990. This proposed piece of legislation would allow municipalities to borrow in the most cost-effective manner and invest for maximum returns commensurate with security of capital, and reduce administrative procedures.

The Association of Municipalities of Ontario together with the Municipal Finance Officer's Association requests that Bill 229 be re-introduced to the house as soon as possible. Ontario's municipalities would perceive such a step as a strong indication that the provincial government is indeed committed to a reform of the provincial-municipal financial partnership.

3.0. IMPLEMENTING THE REFORM OF THE PROVINCIAL-MUNICIPAL FISCAL PARTNERSHIP

Parallel processes: analysis and implementation

The Association of Municipalities of Ontario is of the opinion that current reform initiatives such as the establishment of the Fair Tax Commission should not delay the process of implementing some necessary changes in the distribution of roles and responsibilities between the province of Ontario and Ontario's municipalities. Research and analysis of alternative policy options for reform should thus run parallel to the implementation of some of the realignments agreed upon between the two levels of government. Thus, AMO would like to urge the provincial treasurer to fully support the work of the Next Steps Committee which is designed to develop a number of alternative scenarios for a restructuring of provincial-municipal finance.

Long-term planning appreciated

AMO appreciates the provincial government's commitment to establish a multi-year economic planning process. Given that the government adheres to a long-term planning perspective for the implementation of priorities identified in the Speech from the Throne, the Association would urge the province to provide the Association with regular updates on government priorities as well as tentative timelines for the introduction of new programs and policy initiatives.

4.0. LONG-TERM CHANGES IN THE PROVINCIAL-MUNICIPAL PARTNERSHIP

Philosophical framework for the municipal sector

The Association of Municipalities of Ontario would encourage the provincial government to develop a philosophical framework outlining the role that municipal governments should play within the wider context of private and public sector institutions. This framework should acknowledge the need for strong autonomous municipal government and provide a clear delineation of roles and responsibilities assumed by the provincial government of Ontario and Ontario's municipalities. The formulation of such a philosophical framework would have to be completed in consultation with the municipal sector.

Exploration of alternative sources of revenues and a revenue-sharing act

The Association of Municipalities of Ontario requests that the province of Ontario supports the exploration of alternative sources of revenues and the establishment of a revenue-sharing act as necessary revenue generating mechanisms for the municipal sector. It is imperative that municipalities be granted access to new sources of revenues designed to bridge the gap between municipal fiscal capacity and aggregate municipal expenditures.

AMO requests the province of Ontario to lend full support to consideration of alternative sources of revenues to permit municipalities to recover the costs of municipal responsibilities. Present regulations in many cases prevent municipalities from levying appropriate charges to recover their costs.

In the same vein, AMO urges the provincial government to commence studies on a revenue-sharing act. AMO supported the creation of a revenue-sharing act in New Dimensions (1990) :

> *"AMO concluded that property tax must be augmented by a stable and consistent transfer payment system. The transfer payment system must reflect the sharing of roles and responsibilities. Consequently, our transfer payment system should not be regarded as "grants" or "gift" but sharing in revenues to fulfill the goals and objectives of the programs.*
>
> *The province of Ontario and (the) Association must enter into discussions to develop a revenue-sharing act ... (pp.33-34)."*

While a full realignment of provincial-municipal fiscal responsibilities may potentially lead to a discussion about the ongoing need for alternative sources of revenues and a revenue-sharing act for the municipal sector, the emergence of new local needs may necessitate the continuation of such additional revenue-sharing mechanisms. For example, municipalities may consider establishing environmental taxes in order to fulfil the local taxpayers' needs for a clean environment.

AMO would be pleased if the 1991 budget would provide an indication to Ontario's municipalities that the province of Ontario is seriously committed to empowering municipalities to collect necessary additional revenues in new and creative ways.

5.0. CONCLUSION

In this pre-budget consultation brief the Association of Municipalities of Ontario has largely refrained from suggesting specific policy initiatives and programs as funding priorities for the 1991 fiscal year. The Association feels that voicing specific recommendations at this point in time could very well pre-empt the outcomes of scheduled provincial-municipal negotiations on the overall reform of the financial partnership.

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